

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management discussion and analysis section of the City of Redmond's annual financial report provides a narrative overview of the city's financial activities for and financial position at the end of December 31, 2003. This information should be read in conjunction with the preceding letter of transmittal and the financial statements and notes to the financial statements that follow.

Financial Highlights

- Net assets, the amount by which total assets exceed total liabilities, equaled \$413,929,255 in 2003. A total of 76% or \$316,232,202 of total net assets is invested in capital assets such as streets, land, buildings, and utility pipes. Of the remaining net assets of \$97,697,053, the majority are legally restricted, reserved by city policy for specific purposes, or are the net assets of business-type activities restricted for use by the city's utilities.

The city's net assets increased by \$31,180,728 in 2003 which included increases in some segments of net assets and decreases in other segments. The overall increase was split almost equally between governmental activities and business-type activities at \$15,627,211 and \$15,553,517, respectively. Capital assets comprised \$33,088,289 of the total increase with \$10,201,376 of this amount contributed by developers and King County.

In the governmental activities category, non-capital invested net assets for 2003 decreased \$3,040,938 or 4.3% from 2002 with restricted and reserved net assets dropping \$3,312,091 while unreserved net assets rose \$271,153. Non-capital related net assets in the business-type activities category increased \$1,133,377 or 3.9% between 2002 and 2003.

- Governmental fund balances at year end were \$64,175,506, a decrease of \$2,885,448 or 4.3% from the prior year. Of this amount, \$5,308,926 is unreserved and available to fund ongoing activities. \$1,593,045 is legally restricted for debt service and the remaining \$57,273,535 is legally restricted or reserved by city policy for capital projects (\$35,773,405) or Special Revenue Fund purposes (\$21,500,130).

- Unreserved fund balance in the general fund was \$5,285,486, an increase of \$271,073 from the prior year. An additional fund balance of \$4,493,790 is available in the operating reserve fund to provide the capacity to offset significant downturns and revisions in any general municipal purpose fund in accordance with the city's operating reserve policy.
- Total city debt, excluding special assessment debt, decreased \$2,307,937 from 2002 to 2003. Outstanding bonded debt, loans, and long term contracts at year end totaled \$15,833,554.

Overview of the Financial Statements

The city's basic financial statements are presented in three parts: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. Other supplementary information in addition to the basic financial statements is also contained in this report. This section of the management's discussion and analysis is intended to introduce and explain the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to give the reader a picture of the financial condition and activities of the city as a whole. This broad overview is similar to the financial reporting of private-sector businesses. The government-wide financial statements have separate columns for governmental activities and business-type activities. Governmental activities of the city include general government (finance, executive, human resources), security (police and fire), physical environment, economic environment, transportation, mental/physical health, and culture and recreation. The city's business-type activities are limited to water/wastewater and stormwater utilities. Governmental activities are primarily supported by taxes, charges for services, and grants while business-type activities are self-supporting through user fees and charges.

The *statement of net assets* presents information on all of the City of Redmond's assets and liabilities, highlighting the difference between the two as net assets. This

statement is similar to the balance sheet of a private sector business. Over time, increases or decreases in net assets may be one indicator of improvement or deterioration in the city's overall financial health.

The *statement of activities* presents information designed to show how the city's net assets changed during the year. This statement distinguishes revenue generated by specific functions from revenue provided by taxes and other sources not related to a specific function. The revenue generated by the specific functions (charges for services, grants, and contributions) is compared to the expenses for those functions to show how much each function either supports itself or relies on taxes and other general funding sources for support. All activity on this statement is reported on the accrual basis of accounting, requiring that revenues are reported when they are earned and expenses are reported when they are incurred, regardless of when cash is received or disbursed. Items such as uncollected taxes, unpaid vendor invoices for goods or services received during the year, and earned but unused vacation leave are included in the statement of activities as revenue and expenses even though no cash has changed hands.

Fund Financial Statements

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the city's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general fund, special revenue funds, and proprietary funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restrictions or limitations. The City of Redmond, like other state and local governments, uses fund accounting to ensure and show compliance with finance-related legal requirements. The city's funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions as are reported as governmental activities in the government-wide financial statements. The basis of accounting is different between the governmental fund statements and the government-wide financial statements. The governmental fund statements focus on near term revenues/financial resources and expenditures while the government-wide financial

statements include both near term and long term revenues/financial resources and expenses. The information in the governmental fund statements can be used to evaluate the city's near term financing requirements and immediate fiscal health. Comparing the governmental fund statements with the government-wide statements can help the reader better understand the long term impact of the city's current year financing decisions. To assist in this comparison, reconciliations between the governmental fund statements and the government-wide financial statements are included with the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The City of Redmond maintains twenty-four individual governmental funds. The city's three major governmental funds, the general fund, the LID control fund, and the capital improvements program fund are presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are combined into a single column labeled other governmental funds. Individual fund data for each of the other governmental funds can be found in combining statements later on in this report.

The city maintains budgetary control over its operating funds through the adoption of a biennial budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement is presented for the general fund as a basic financial statement. Other budgetary comparison schedules are included following the other governmental funds' combining statements in this report.

Proprietary funds are used by governments to account for their business-type activities. Business-type activities provide specific goods or services to a group of customers that are paid for by fees charged to those customers. There is a direct relationship between the fees paid and the services received.

The City of Redmond has two types of proprietary funds, enterprise funds and internal service funds. Enterprise funds are used to account for goods and services provided to citizens. Internal service funds are used to account for goods and services provided internally to various city departments.

Enterprise funds of the city are used to report the same functions presented as business-type activities in the government-wide statements with the fund statements providing more detail than is reported in the government-

wide statements. The enterprise fund statements provide separate information for the city's water/wastewater utility, an Urban Planned Development (UPD) water/wastewater utility outside the city limits, and the city's stormwater utility.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the city's various functions. The city uses internal service funds to account for its fleet of vehicles, insurance premiums and claims, medical self-insurance, workmen's compensation self-insurance program, and information technology. Internal service funds benefit both governmental and business-type activities and are allocated accordingly in the government-wide statement of activities. Internal service fund assets and liabilities are predominantly governmental and have been included in the governmental activities column of the government-wide statement of net assets.

Fiduciary funds account for assets held by the city in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds are not included in the government-wide financial statements because their assets are not available to support the City of Redmond's activities.

The city has two types of fiduciary funds, a pension fund and agency funds. The accounting for the pension fund is on the accrual basis. Agency funds are custodial in nature and do not include revenues and expenses as they do not measure the results of operations.

Notes to the financial statements

The notes to the financial statements provide additional information that is important to a full understanding of the data in the government-wide and fund financial statements. The notes are located immediately following the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain ***required supplementary information*** concerning the city's progress in funding its obligation to provide pension benefits to certain retired firefighters. Required supplementary information may be found immediately following the notes to the financial statements.

The combining statements for other governmental funds, internal service funds, and agency-type fiduciary funds

are presented immediately following the required supplementary information.

Government-wide Financial Analysis

Statement of net assets

The statement of net assets can serve as a useful indicator of the city's financial position. The City of Redmond's net assets at December 31, 2002 and 2003 total \$382,748,527 and \$413,929,255, respectively. Following is a condensed version of the government-wide statement of net assets for 2003 compared to 2002.

City of Redmond's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 84,222,468	\$ 86,618,096	\$ 34,339,626	\$ 33,059,419	\$118,562,094	\$119,677,515
Capital assets, net of accumulated depreciation	181,981,391	162,969,952	150,447,478	138,644,633	332,428,869	301,614,585
Total assets	266,203,859	249,588,048	184,787,104	171,704,052	450,990,963	421,292,100
Long-term liabilities	19,515,720	18,916,538	1,054,143	3,796,904	20,569,863	22,713,442
Other liabilities	12,874,944	12,485,526	3,616,901	3,344,605	16,491,845	15,830,131
Total liabilities	32,390,664	31,402,064	4,671,044	7,141,509	37,061,708	38,543,573
Net assets						
Invested in capital assets, net of related debt	166,566,041	147,897,892	149,666,161	135,246,021	316,232,202	283,143,913
Restricted	40,885,464	43,477,756	-	1,004,650	40,885,464	44,482,406
Unrestricted	26,361,690	26,810,336	30,449,899	28,311,872	56,811,589	55,122,208
Total net assets	\$233,813,195	\$218,185,984	\$180,116,060	\$164,562,543	\$413,929,255	\$382,748,527

The largest component of the city's net assets, 76% or \$316,232,202, is its investment in capital assets less any related outstanding debt issued to acquire those assets. These capital assets such as streets, trails, parks, fire and police vehicles, are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending. The city has elected the GASB 34 reporting option to include all general infrastructure of the city acquired or substantially renovated since 1980.

Approximately 8.6% or \$35,773,405 of the total net assets of the city are earmarked for general government construction projects such as renovation and construction of sports fields in city parks, widening and rehabilitation of West Lake Sammamish Parkway, construction of a new City Hall, and construction of a new fire station on Education Hill. The city attempts to fund its capital construction projects on a pay as you go basis, aggressively pursuing transportation grant funding and cost sharing with developers wishing to construct large projects in the city that impact the transportation system.

The remaining \$61,923,648 balance of net assets is divided among net assets restricted for debt service payments of \$1,593,045 (.3% of total net assets), net assets restricted for special purposes of \$3,519,014 and net assets intended to fund various activities of the city. The \$3,519,014 of net assets restricted for special purposes are designated to fund activities such as advanced life support services, tourism activities, park maintenance and operation, and capital construction transfers.

A total of \$30,449,899 represents the unrestricted net assets of the city's business-type activities and may only be spent on water/wastewater and stormwater utility activities. Maintenance of utility delivery systems (water lines, pump stations, wells), storm drain flushing, water meter reading, and capital construction projects such as well rehabilitation are examples of utility activities.

Of the \$26,361,690 in funds not subject to legal restrictions, \$21,076,204 is reserved for specific activities by city policy. Examples of the net assets reserved by city policy are funds earmarked for equipment replacement, rainy day funds, recreation activities, recycling, and transportation flow improvements. \$5,285,486 of the city's net assets are unreserved.

At the end of the fiscal year, the City of Redmond reported positive balances in all three categories of net

assets, for the government as a whole, as well as for the separate governmental and business-type activities.

Changes in net assets

The changes in net assets table illustrates the increases or decreases in net assets of the city resulting from its operating activities. The City of Redmond's net assets increased approximately \$31.2 million in 2003. The increase was split almost equally between the government activities (\$15.6 million) and the business-type activities (\$15.5 million).

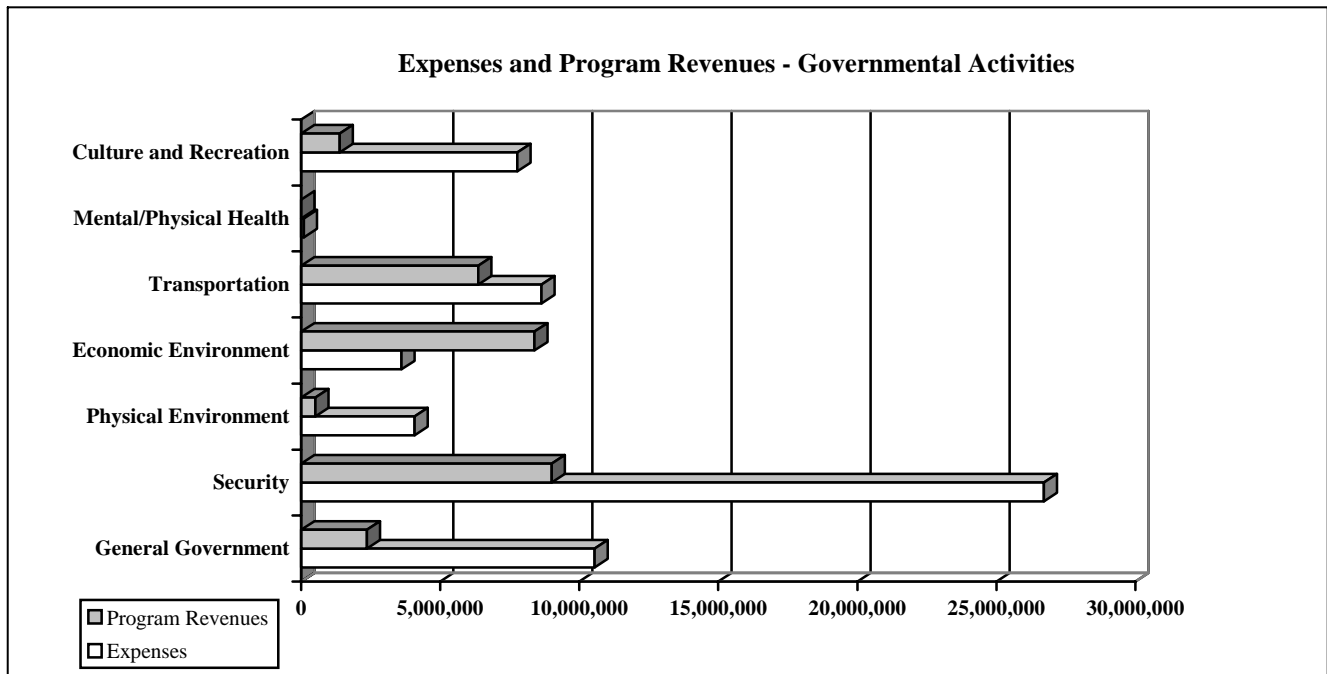
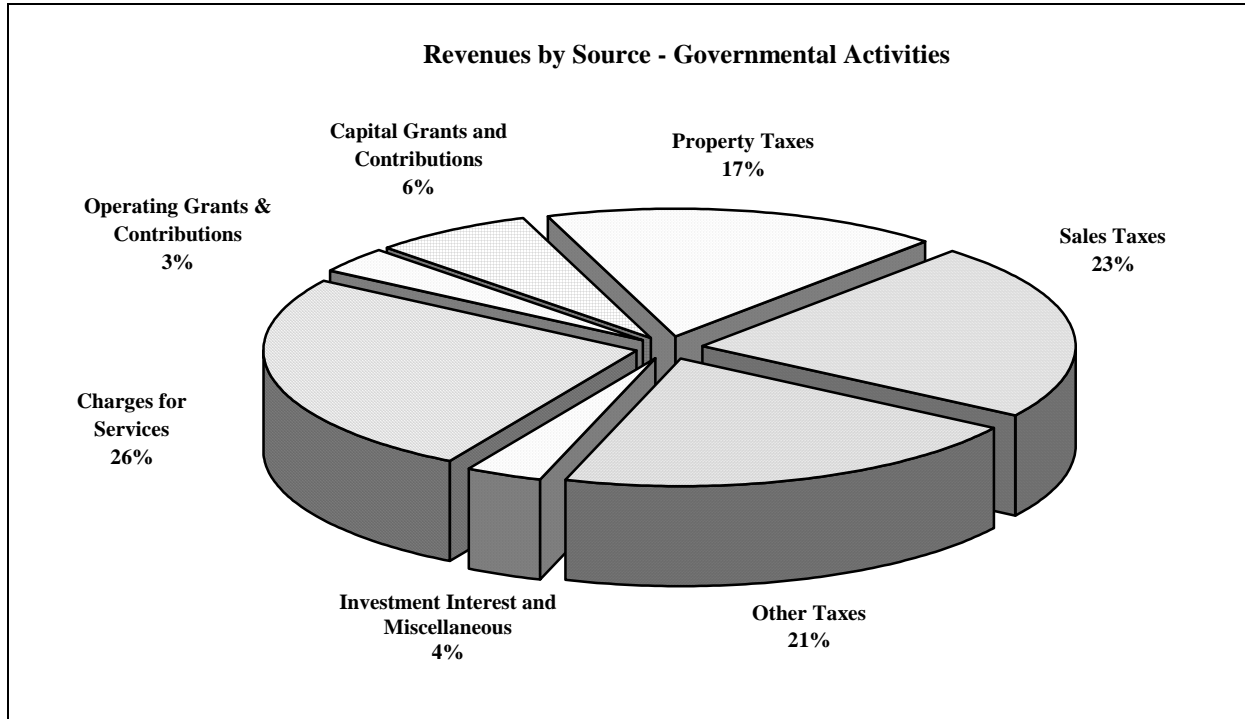
Following is a condensed version of the city's changes in net assets. The table shows the revenues, expenses, and related changes in net assets in tabular form for the governmental activities separate from the business-type activities for 2002 and 2003. The graphs that follow compare program revenues to program expenses and illustrate the revenues by source separately for the governmental and business-type activities for 2003.

City of Redmond's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues						
Charges for services	\$ 20,051,614	\$ 14,355,237	\$ 27,490,112	\$ 25,644,676	\$ 47,541,726	\$ 39,999,913
Operating grants and contributions	2,588,695	1,969,740	1,285	-	2,589,980	1,969,740
Capital grants and contributions	5,380,558	9,615,994	12,651,443	19,078,302	18,032,001	28,694,296
General revenues						
Property taxes	13,298,157	12,973,803	-	-	13,298,157	12,973,803
Sales taxes	17,575,204	15,904,505	-	-	17,575,204	15,904,505
Other taxes	16,163,612	15,117,493	-	-	16,163,612	15,117,493
Investment interest	1,681,065	3,051,634	767,170	1,134,803	2,448,235	4,186,437
Miscellaneous	916,382	285,109	48,245	53,798	964,627	338,907
Total revenues	77,655,287	73,273,515	40,958,255	45,911,579	118,613,542	119,185,094
Expenses:						
General government	10,554,145	10,412,581	-	-	10,554,145	10,412,581
Security	26,710,617	23,486,809	-	-	26,710,617	23,486,809
Physical environment	4,074,430	3,875,341	-	-	4,074,430	3,875,341
Economic environment	3,602,868	3,017,641	-	-	3,602,868	3,017,641
Transportation	8,633,148	7,346,632	-	-	8,633,148	7,346,632
Mental/physical health	87,644	85,237	-	-	87,644	85,237
Culture and recreation	7,779,409	7,034,484	-	-	7,779,409	7,034,484
Interest on long term debt	747,107	910,211	-	-	747,107	910,211
Water/wastewater	-	-	18,323,044	17,286,285	18,323,044	17,286,285
UPD water/wastewater	-	-	2,121,347	1,621,951	2,121,347	1,621,951
Stormwater	-	-	4,799,055	3,937,122	4,799,055	3,937,122
Total expenses	62,189,368	56,168,936	25,243,446	22,845,358	87,432,814	79,014,294
Increases in net assets before transfers and special items	15,465,919	17,104,579	15,714,809	23,066,221	31,180,728	40,170,800
Transfers	161,292	15,717	(161,292)	(15,717)	-	-
Special items	-	-	-	(637,356)	-	(637,356)
Increase in net assets	15,627,211	17,120,296	15,553,517	22,413,148	31,180,728	39,533,444
Net assets – beginning	218,185,984	201,065,688	164,562,543	142,223,932	382,748,527	343,289,620
Prior period adjustment	-	-	-	(74,537)	-	(74,537)
Net assets - ending	\$233,813,195	\$218,185,984	\$180,116,060	\$164,562,543	\$413,929,255	\$382,748,527

Governmental activities contributed \$15,627,211 of the total change in net assets of \$31,180,728. Key elements of the increase are as follows:

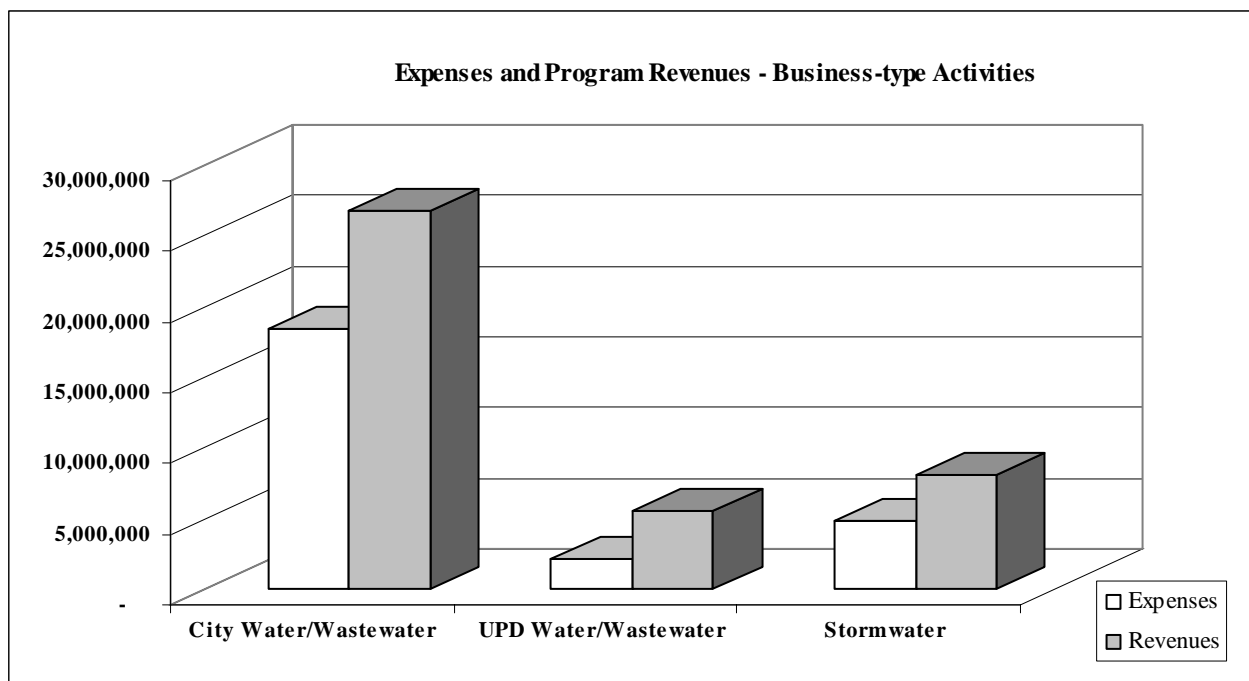
- The city's investment in capital assets increased \$18,668,149 from 2002 to 2003. For the same period, the net assets restricted for capital expenses decreased \$4,024,230. The resulting net change in net assets earmarked for capital purposes was an increase of \$14,643,919. Revenues to fund capital assets are recorded as program or general revenues in the statement of activities. The associated construction expenses are not recorded as expenses in the year of construction but rather are allocated to expense over the lives of the assets through depreciation expense.
- The remaining components of net assets increased by a modest 3% or \$983,292 from 2002 to 2003. Ongoing revenue sources to fund basic city operations remained relatively flat in 2003. Cognizant of the low growth in revenues available to fund ongoing activities, the city was aggressive in limiting its operating expenses and ended 2003 in a positive position. Although the city's total net assets outside of capital assets changed very little specific revenues and expenses did experience fluctuations.
- Three of the city's general government revenue sources provided one-time or new ongoing revenues in 2003. The first one-time revenue for 2003 came from sales taxes, the city's largest single revenue source, at approximately one third of general revenues. The city received a one-time sales tax audit adjustment of \$1.5 million in 2003 resulting from an ongoing audit of sales taxes paid by Redmond businesses. Absent this one time adjustment, sales tax revenue would have increased only 1% from 2002 to 2003. The second one-time revenue received in 2003 resulted from a settlement related to a new cable access contract the city entered into on January 1, 2003. The cable access provider paid the city a settlement of \$505,905 from prior contract issues and contributed \$343,697 for various contract related capital and operating expenses.
- The city also began receiving new ongoing revenue in 2003 when Redmond assumed responsibility for providing advanced life support (ALS) services to several East King County cities and surrounding areas. The service is funded by an Emergency Services levy that generated approximately \$3 million in revenue. Although this revenue source contributed to the overall revenues of the city, expenses of providing ALS services were also approximately \$3 million resulting in very little change to the net assets of the city's governmental activities from this revenue source.
- Three revenue sources used to fund ongoing city operations experienced significant decreases in 2003. Development fees, including permits and inspections, declined \$1.2 million or 38% in 2003 due to weakness in commercial and multi-family construction projects. A second declining revenue source in 2003 was interest revenue on the city's investments, down \$1.37 million from 2002. Interest rates were lower and the city had less cash available to invest as the city moves ahead with spending on much needed capital projects. The third significant decrease for 2003 was the loss of approximately \$400,000 in motor vehicle excise tax from the State due to voter-approved Initiative 776 that repealed the local option vehicle license fee.
- Overall, expenses in the various functional areas remained stable with increases ranging from 1.4% to 5.1% with three exceptions. As noted above the city assumed responsibility for ALS services in East King County adding approximately \$3 million in expenses to the security function. Transportation expenses increased about \$1.3 million with close to \$1.1 million of the increase attributable to major street maintenance projects. The third function with a relatively high percentage increase was culture and recreation at 10.6%, about \$740,000. Most of the increase was due to more robust special event functions throughout the city such as the Redmond Lights holiday event, Derby Days, and the Fourth of July. All other functional areas held expense increases to under \$600,000 in total.



Business-type activities of the city's utilities increased the City of Redmond's net assets by \$15,553,517, accounting for 50% of the total growth in the government's net assets.

Key elements of this increase are as follows:

- Capital contributions emerged as a major revenue source for the utilities during the current year, producing over \$12 million in revenue. Capital assets totaling more than \$2 million were contributed by the Redmond Ridge Urban Planned Development (UPD) and another \$6 million in capital assets was contributed by other development. The remaining \$4 million is attributable to connection fees and capital facility charges.
- Water/wastewater operating revenues for 2003 were \$18,439,763, a 7% increase over 2002. This increase was due to an increase in water consumption and increased rates implemented in January 2003 for water and sewer.
- UPD Water/wastewater operating revenues for 2003 were \$2,110,823, a 32% increase over 2002. This increase was due to continued growth in the UPD development and increased rates implemented in January 2003 for water and sewer.
- Stormwater operating revenues for 2003 were \$6,939,526, a 1% increase over 2002 due to growth within the city.
- Investment earnings for the business-type activities decreased \$367,633 over 2002 due to lower interest rates.
- As discussed in Note 11, all outstanding Water and Sewer Revenue Bonds totaling \$2,855,000 were called and paid off in December 2003.



Financial Analysis of the Government's Funds

As discussed earlier, the City of Redmond uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The purpose of the city's governmental funds is to report on near term revenues/financial resources and expenditures. This information helps determine the city's financial requirements in the near future. In particular, fund balance is a good indicator of the city's resources available at the end of the year.

At the end of the current year the city's combined ending governmental fund balance was \$64,175,506. This was a decrease of \$2,885,448 or 4.3% from the ending fund balance of the prior year. Of the \$64,175,506, \$1,593,045 is reserved for debt service. \$35,773,405 is earmarked for capital construction projects and \$21,500,130 resides with special revenue funds. Significant special revenue fund balances include \$5,406,390 in the operating reserve fund, including general reserves and development reserves, \$3,303,764 in equipment reserve funds, and \$7,753,701 in the business license surcharge fund for future transportation projects. Special revenue fund balances are either legally restricted or reserved by city policy for particular purposes.

The general fund is the primary operating fund of the city through which all receipts and payments of ordinary city operations are processed, unless they are required to be accounted for in another fund. Taxes are the major revenue source. At the end of 2003 the fund balance of the general fund was \$5,308,926. As a measure of the fund's liquidity, the ending fund balance is 11.9% of the fund's 2003 expenditures.

The general fund balance increased \$271,153 from the prior year. Revenues and expenditures rose slightly from 2002 to 2003, increasing 2.5% and 2% respectively. Revenues exceeded expenditures in the general fund by \$4,638,517 in 2003. In keeping with the city's policy to fund capital projects on a pay as you go basis, net transfers out of the general fund totaled \$4,368,289, primarily for capital activities.

Taxes are the primary source of revenue in the General Fund, at 70% of the fund's 2003 revenues. Sales tax revenues, the city's largest single revenue source, increased \$1.66 million from 2002 to 2003. However,

\$1.5 million of this amount resulted from a one time audit adjustment. Without this adjustment, sales tax revenues increased 1.1% in 2003, an improvement over the 5% decline experienced in 2002.

Changes of note occurred in several other General Fund revenues. License and permit revenue was up \$767,739 in 2003. A new cable franchise agreement and collection of prior year's underreported business license fees uncovered in an audit conducted by the city brought increased license and permit revenues of \$1.2 million. Development fee collections remained weak for commercial and multi-family construction, negatively affecting permit revenues by \$452,000 and inspection fee charges for services by \$775,000. Interest income on General Fund investments was down \$568,151 in 2003 due to a combination of low interest rates and the allocation among funds of the city's investment portfolio.

In recognition of a slow economy and limitations on its ability to raise taxes, the city closely monitors expenditures to not exceed revenues and have minimal impact on currently provided public services. The city's largest General Fund expenditure category, at 50% of total expenditures, is security encompassing Police and Fire services. Expenditures in this category were down .1%, mainly due to vacant positions and a delay in salary increases resulting from unsettled Police and Fire union contracts.

The LID control debt service fund has a fund balance of \$539,321, down from \$840,986 in 2002. The purpose of this fund is to collect special assessments from property owners benefited by a local improvement district construction project and to pay from those collections the bonds issued to finance the project construction. The ending fund balance is a reflection of the timing of the special assessment collections compared to the timing of the bond calls.

The capital improvements program fund ending fund balance was \$34,766,063, a decrease of \$4,033,207 from 2002. Several factors contributed to this decrease. Total revenues and net transfers were up \$5.8 million while expenditures including \$276,956 more in debt service were up close to \$10 million. Two bonds to finance park renovations were issued for \$3,698,472. Net transfers in were up \$1.6 million. The city requires developers to directly contribute to some transportation capital projects if the developers will benefit from the project or their development will greatly impact the city's transportation system. Contributions from developers were up \$503,438 in 2003. Capital construction project expenditures were

\$9,720,520 higher than in 2002, with several major road projects and park renovations underway. Investment income was down \$975,928 from 2002 due to low interest rates and the lower cash balances available to invest.

Proprietary funds

The City of Redmond's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the city's proprietary funds have already been addressed in the discussion of the city's business-type activities.

General Fund Budgetary Highlights

The City of Redmond budgets on a biennial basis with each budget beginning in an odd numbered year by state law. The difference between the 2003/2004 biennial budget adopted at the end of 2002 and the final 2003/2004

biennial budget at December 31, 2003 amounts to \$2,824,377.

Revenues increased in the following categories:

- Beginning fund balance increased \$1,662,829 due to a higher than anticipated ending fund balance at December 31, 2002.
- Fire District 34 \$ 279,350
- Interfund charges for services \$ 199,131
- Developer fees \$ 10,000
- Grants \$ 82,325
- Miscellaneous \$ 7,821
- Transfers from other funds \$ 582,921

Expenditure increases occurred in various functional areas and were as follows:

- The \$1,662,829 increase in beginning fund balance consists of two components. A \$1,512,010 salary and benefit contingency to cover salary increases granted in union contracts was carried over for contracts that were not settled at the end of 2002. Unspent revenues of \$150,819 collected specifically to fund technology improvements and special events were carried over to the 2003/2004 biennium.
- Fire District #34 contributed \$279,350 to fund salaries and benefits for three new firefighter positions.

- The increase in interfund charges for services added a charge of \$200,751 to the newly formed Advanced Life Support Fund for services provided by the General Fund and decreased the Stormwater Management Fund's transfer to the General Fund by \$1,620.
- The additional \$10,000 of developer fees will fund overtime for building inspectors when an after hours inspection is requested by a developer.
- Additional grants of \$82,325 are allocated among the Police, Fire, and Planning departments for emergency preparedness, commute trip reduction, and growth management.
- Miscellaneous contributions of \$7,821 will fund website development (\$5,000), youth services (\$2,052), and local law enforcement (\$769).
- Transfers from other funds increased by \$537,069 from the Operating Reserves Fund, \$18,000 from the Recreation Activities Fund, and \$27,852 from the Advanced Life Support Fund for a total of \$582,921. These transfers support various General Fund activities of benefit to the city as a whole.

Capital Asset and Debt Administration

Capital Assets

The City of Redmond's investment in capital assets for its governmental and business-type activities as of December 31, 2003 amounts to \$332,428,869 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, art, construction in progress, utility transmission/distribution systems, roads, and bridges.

Major capital assets changes during 2003 included the following:

- Three fire aid vehicle chassis' were replaced for \$252,180 and one new aid vehicle was purchased for \$124,185.
- Land was acquired in downtown Redmond from King County at a cost of \$1,376,305.

- King County contributed \$571,150 in vehicles associated with the Advanced Life Support program.
- Renovation of Grasslawn Park's tennis courts and sports fields was completed at a final cost of \$3.5 million.
- General government capital investment street projects were completed at a cost of \$1.2 million.
- General government capital investment projects currently under construction are valued at \$25,604,157. These include development of Perrigo Park, phase 2 of West Lake Sammamish Parkway, and transportation projects in the Overlake area.
- Private developers contributed streets and traffic signals valued at \$1.2 million.
- Capital assets contributed to the city water/wastewater utility totaled \$6 million and \$2 million in capital assets were contributed to the UPD water/wastewater utility.
- City utility projects completed in 2003 include rehabilitation of sewer pump station #4, water mains, and Idylwood Stream at a total cost of \$6,120,691.

City of Redmond's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 41,273,042	\$ 39,416,160	\$ 5,105,597	\$ 4,970,966	\$ 46,378,639	\$ 44,387,126
Buildings/Building Improvements	20,499,236	20,687,569	14,281,352	13,393,331	34,780,588	34,080,900
Improvements other than buildings	7,235,120	4,059,550	125,606,607	113,928,419	132,841,727	117,987,969
Machinery and equipment	8,463,302	8,069,692	422,354	471,509	8,885,656	8,541,201
Construction in progress	25,604,157	11,565,032	5,031,568	5,880,408	30,635,725	17,445,440
Infrastructure	78,696,279	78,973,694	-	-	78,696,279	78,973,694
Art	210,255	198,255	-	-	210,255	198,255
Total	<u>\$ 181,981,391</u>	<u>\$ 162,969,952</u>	<u>\$150,447,478</u>	<u>\$138,644,633</u>	<u>\$ 332,428,869</u>	<u>\$ 301,614,585</u>

Additional information on the City of Redmond's capital assets can be found in Note 7 of this report.

Long-term debt

At the end of the current fiscal year, the City of Redmond had total bonded debt outstanding of \$12,678,472. Of this amount, \$10,933,472 is general obligation bonds, and \$1,745,000 is special assessment debt with governmental commitment.

City of Redmond's Outstanding Debt - General Obligation and Revenue Bonds

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
General obligation bonds	\$ 10,933,472	\$ 9,635,000	\$ -	\$ -	\$ 10,933,472	\$ 9,635,000
Special assessment debt with governmental commitment	1,745,000	2,485,000	-	-	1,745,000	2,485,000
Revenue Bonds	-	-	-	2,855,000	-	2,855,000
Total	<u>\$ 12,678,472</u>	<u>\$ 12,120,000</u>	<u>\$ -</u>	<u>\$ 2,855,000</u>	<u>\$ 12,678,472</u>	<u>\$ 14,975,000</u>

The City of Redmond maintains a AA rating from Standard & Poors and a AA2 rating from Moody's for general obligation debt. Revenue bonds for the Water/Wastewater Utility have been rated A from Standard & Poors and A1 from Moody's. Special assessment bonds are unrated.

Washington State statutes limit the amount of general obligation debt a governmental entity may issue to 7.5% of its total assessed valuation, subject to a 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities, and 2.5% for utilities. Non-voted (limited tax) general obligation indebtedness is limited to 1.5% of assessed valuation. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5% of assessed valuation. The City's assessed valuation for 2003 was \$8,591,122,385 and remaining debt capacity is as follows:

General	\$ 207,756,424
Open Space/Park Facilities	210,301,637
Utilities	214,778,060
TOTAL	<u>\$ 632,836,121</u>

The total amount of unlimited tax and limited tax general obligation debt the city may issue is \$644,334,180. Additional information on the City of Redmond's long-term debt can be found in Note 11 of this report and in the Statistical Section of the report.

Economic Factors and Mid Biennium Budget Review

Several factors that affect the economic climate in Redmond were considered when preparing the city's 2003-2004 biennial budget. The outlook for the nation, state and region was weighed in relation to its expected impact on Redmond. The character of the city, including its current and future business activity and its attraction as a place to live, was evaluated. Current financial position and the ability of the city to thrive under its adopted fiscal policies were also given due consideration. Based on these considerations, Redmond's future economic health is promising amid some short-term challenges.

The city conducted its mid biennium review of the 2003-2004 biennial budget at the end of 2003 in accordance with State law. As expected the slow economy was adversely affecting the city's projected revenues, particularly sales and utility taxes. In concert with the city's conservative fiscal policies, expense budgets in the General Fund were reduced in all functional categories for the remainder of the 2003-2004 biennium to correspond more closely to actual revenue collections.

At the end of 2003 although the decline in the national economy appeared to have bottomed out the effects of the downturn still lingered. Local conditions in the Puget Sound region traditionally lag behind national trends by about six to nine months with improvement expected in late 2004 or 2005.

The regional economy in Puget Sound was primarily affected by the economic decline of recent years in the aerospace and high-tech sectors. The aerospace industry plays a small role in Redmond's economy compared to its major high-tech player, Microsoft, who weathered the recent economic storm relatively well. A watchful eye will be kept on potential job losses in Redmond resulting from Cingular's recent acquisition of AT&T Wireless, with its headquarters in Redmond Town Center.

During the last decade the City of Redmond has grown tremendously and its attraction as a place to live and work is clear. In 2003 two major retailers, the Bon Marche and Cost Plus Imports opened their doors in Redmond. A full-service seven story Marriott Hotel and Conference Center are under construction at Redmond Town Center that will attract visitors to the city. These activities are occurring in Redmond despite a regional economic downturn, indicating strong business confidence in Redmond's future.

Redmond has a history of excellent financial management and prudent fiscal policies. Adherence to these financial management practices and policies has served the city well and set the stage for a community that will thrive for many years to come.

Requests for Information

This financial report is designed to provide a general overview of the City of Redmond's finances for readers with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information, may be addressed to the Finance Director, City of Redmond, PO Box 97010, Redmond, WA 98073-9710.